



## **Economic Impact of a Carbon Tax**

### **Main Economic Arguments made by Carbon Tax opponents:**

1. A carbon tax would be regressive, disproportionately affecting the poor.
2. A carbon tax would raise prices too much across the entire economy.
3. A carbon tax would put US goods at an international competitive disadvantage

### **Rebuttals to these arguments:**

Regressive tax: Making the carbon tax revenue-neutral easily flips this argument on its head. “Revenue-neutral” means for every dollar raised by a tax, an equivalent dollar is returned to consumers. Do this equally across the country, and the poor end up ahead. To illustrate this, in 2005, America’s richest 20% spent an average of \$3,182 on gasoline, or 3.6 times as much as the \$882 spent by the poorest 20%<sup>1</sup>. So, although the poorest 20% of Americans spend a greater percentage of their income on carbon, they pay less overall and thus would receive more money back than they paid in carbon taxes.

Prices rise too high: Table 1 shows the % price increase in goods of the 10 industries most affected by a \$15 carbon tax<sup>2</sup>. Table 2 gives a closer look at the effect on oil and gas prices<sup>3</sup>. Except for those industries the tax is intended to raise prices for anyway, the effect is relatively small. A revenue-neutral carbon tax minimizes the effect even further because overall tax burdens would not rise. Unaccounted for in these figures are the costs companies would incur to shift away from carbon-intensive inputs. These costs will be passed forward to consumers. Those extra costs, however, will create jobs in new industries aimed at carbon reductions.

US at competitive disadvantage: Representative Larson’s HR 1337 includes a stipulation that the carbon tax would be waived for any US goods exported to countries without a comparable carbon price. Similarly, any carbon-intensive goods imported into the US would have the carbon tax imposed on them at the border<sup>4</sup>. Thus US exports would have no carbon penalty, and foreign imports would have no competitive advantage. This effectively renders this argument moot. It is also worth noting that there is no evidence to date that the European carbon price affected their trade competitiveness<sup>2</sup>.

### **Additional Economic benefits of a Carbon Tax:**

1. Raising the price of carbon will make less carbon intensive and carbon-free industries more competitive. They will earn more money, thus creating jobs.
2. There is huge potential for job creation and growth in the renewables industry. In 2008 the wind industry grew by 70% on a year earlier to employ more people (85,000) than the coal mining industry (81,000). By contrast, the coal mining industry has shrunk by 50% since 1986<sup>5</sup>. These are jobs that can’t be exported.
3. Because a carbon tax would build on an existing tax-collection infrastructure, the implementation cost would be less than that of a cap-and-trade program. In the case of an inflexible cap and trade system (i.e. one without carbon price ceilings and floors or “safety-valves”), a carbon tax would cost 1/5 as much<sup>6</sup>.



4. The less carbon we use, the less economically beholden we are to unstable or anti-American regimes, and the less money we have to borrow from China to support our habit. This will increase our economic standing in the world.

Industry Product	Price Increase (%)
Petroleum and coal products	16.1
Coal mining	15.0
Utilities	11.2
Mining, except coal, oil and gas	3.9
Primary metals	3.2
Pipeline transportation	2.4
Air transportation	1.8
Waste management and remediation services	1.7
Nonmetallic mineral products	1.6
Paper products	1.3

**Table 1:** Industry final price increases assuming a \$15 per ton CO<sub>2</sub> carbon tax is passed fully forward to consumers for the 10 most affected industries<sup>2</sup>.

	<i>Unit</i>	<i>Price per Unit (2006) (\$)</i>	<i>Tax per Unit (\$)</i>	<i>Price Change (%)</i>
Gasoline	Gal	2.57	0.15	5.8
Natural Gas	MMBtu	13.34	0.80	6.0
Coal	MMBtu	1.70	1.42	83.5

**Table 2:** Short term energy price impacts of \$15 per metric ton CO<sub>2</sub> tax<sup>3</sup>.

## References:

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